No. 96-1698

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

INSTITUT PASTEUR and PASTEUR SANOFI DIAGNOSTICS,
Petitioners,

—v.—

CAMBRIDGE BIOTECH CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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May 27, 1997

QUESTION PRESENTED FOR REVIEW

Should this Court reverse the Court of Appeals' decision permitting a debtor in possession to assume and retain its own prepetition patent licenses pursuant to 11 U.S.C. § 365(c), where lower courts found that: (i) the transaction was not a "disguised assignment" to a different party; (ii) the debtor in possession was not, legally or in substance, an entity materially distinct from the debtor; (iii) if the contract were assumed by the debtor in possession, the non-debtor party would nonetheless receive the full benefit of its bargain; and (iv) the contract and applicable law permit the transaction in question?

RULE 29.6 STATEMENT

The parent companies of Respondent Cambridge Biotech Corporation are, in ascending order, bioMérieux Vitek, Inc., ABG Stella Acquisition, Inc., bioMérieux S.A., and bioMérieux Alliance, S.A. Respondent has one nonwholly owned subsidiary, Cambridge Affiliate Corporation.

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STATEMENT OF THE CASE

In 1994 Respondent Cambridge Biotech Corporation ("Respondent"), then a publicly traded company, filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. As a Chapter 11 debtor in possession, Respondent had all the rights and powers of a trustee, 11 U.S.C. § 1107, and continued in operation. Respondent emerged from bankruptcy upon consummation of its Chapter 11 reorganization plan (the "Plan") during the week of October 21, 1996. Prior to bankruptcy, Respondent had two main business lines: a retroviral diagnostic business accounting for the majority of its sales (App. 17a) [1] and a biopharmaceutical business. Under the Plan, Respondent retained its traditional retroviral business and spun off the developing biopharmaceutical business to a new company, Aquila Biopharmaceuticals, Inc. App. 18a. Under the Plan, the stock of Respondent was sold to bioMérieux Vitek, Inc. ("bioMérieux") for cash to be used to fund other aspects of the Plan. *See* App. 38a-39a, § 3(e). In continuing to operate the retroviral business, Respondent has retained related employees, equipment, and some 38 license and sublicense agreements, including the Cross-Licenses with Petitioners.[2] App. 9a; 32a. Respondent's assumption of all such licenses and sublicenses, together with certain supply agreements and other executory contracts, was a material condition for consummation of the Plan. App. 48a, § 33.

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[1] Citations to material contained in the Appendix to the Petition ("App.") are to the material as it appears in such Appendix.

[2] The Cross-Licenses concern processes and compounds for the diagnosis of Human Immunodeficiency Virus ("HIV"), the virus that causes AIDS. *See* App. 2a-3a. Respondent holds an exclusive license from Harvard University for patents related to such diagnosis, while Petitioner Pasteur Sanofi Diagnostics ("PSD") holds a license from the other Petitioner, Institut Pasteur ("IP"), for other patents. *Id.* The Cross-Licenses ensure that Respondent and Petitioner PSD will each have the necessary technology for their independent manufacture of diagnostic test kits for AIDS.

Petitioners unsuccessfully asserted below that: (i) the Plan effected a disguised assignment of the Cross-Licenses to Respondent's new shareholder, bioMérieux; and (ii) even if there was no such assignment, 11 U.S.C. § 365(c)(1) prohibits a debtor in possession, such as Respondent, from assuming patent licenses for use in its ongoing business. Petitioners have presented only the second issue for review by this Court. In their Petition, the Petitioners have made material misstatements of fact and law.[3]

SUMMARY OF ARGUMENT

The decision of the Court of Appeals does not conflict with decisions of other Courts of Appeals or of this Court. As part of its Chapter 11 reorganization Plan, Respondent underwent a change in ownership and, under 11 U.S.C. § 365, assumed certain prepetition contracts, including the patent Cross-Licenses with Petitioners. In upholding the Plan confirmation order, the Court of Appeals determined that: (i) the transaction was not a disguised assignment of the Cross-Licenses to a different party;[4] (ii) Respondent is not, legally or in substance, an entity distinct from the prepetition entity that entered into the contracts with Petitioners; (iii) after Respondent's assumption of the contracts, Petitioners will receive the full benefit of their bargain; and (iv) the contracts by their terms permit retention by Respondent of the licenses following a change in corporate ownership of Respondent.

If a licensee of United States patents who seeks rehabilitation under Chapter 11 must forfeit its right to assume and carry out its patent licenses, the rehabilitative purposes of Chapter 11 would be

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[3] Misstatements of fact and law are discussed *infra* notes 4, 5, 11, 12 and 16.

[4] Notwithstanding that each lower court has rejected Petitioners' attempt to characterize the bioMérieux transaction as effecting an "assignment" of the Cross-Licenses, Petitioners continue to refer to it as one. Petition 3-4. As found by the lower courts, Respondent has retained, not assigned, the Cross-Licenses, and there are no compelling circumstances that warrant treating the transaction as something else. App. 11a-12a; 30a - 33a; 51a, § 34(h).

defeated and Chapter 11 would become a graveyard for technology companies whose business depends upon continued viability of their patent licenses. No circuit court has interpreted the current version of § 365(c) to deny contract assumption by a debtor in possession that is, as Respondent is here, materially the same entity as it was when it made the contract. Likewise, no circuit court has interpreted the current version of § 365(c) to deny contract assumption where the contract, as it does here, authorizes the transaction in question. Finally, the decision of the Court of Appeals is in accord, not at odds, with relevant authority of this Court recognizing, in the absence of contrary evidence, that a debtor in possession is not an entity different from the prepetition debtor.

REASONS FOR DENYING THE PETITION

I. THE CASE WAS RIGHTLY DECIDED AND PRESENTS NO COMPELLING ISSUE FOR REVIEW.

While contracts are generally assignable, common law recognizes that rights and obligations under certain types of contracts cannot be assigned or delegated to a third party. *See* RESTATEMENT (SECOND) OF CONTRACTS § 317(2) (1979). A number of cases have also held that nonexclusive licenses under United States patents may not be assigned, unless the contrary is provided in the license.[5] The courts below assumed, for purposes of their decision, that the patent licenses at issue would have been

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[5] *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 679 (9th Cir. 1996)("*CFLC*") and cases cited. This conclusion is said to be a matter of "federal common law," although the license agreement may have a choice of law clause adopting the law of a state (in the instant case, Massachusetts law; App. 66a, 80a). *Cf. Volt Info. Sciences, Inc. v. Board of Trustees of the Leland Stanford Junior Univ.*, 489 U.S. 468, 476 (1989) (parties' choice of California law precludes application of Federal Arbitration Act, despite strong federal policy favoring arbitration). Petitioners err (Petition 6 n.5) in attributing nonassignability to the act of Congress providing that patents for invention have the attributes of "personal property" (35 U.S.C. § 261), as such enactment merely means that patents for invention are personal property, not real property.

nonassignable under federal common law, but held that the debtor in possession could assume them for use in its business. *See* App. 8a; 25a-26a; 51a.[6]

Section 365 of the Bankruptcy Code generally permits assumption or assignment of a debtor's contracts. (*See* §§ 365(a) and (f)), but seeks to accommodate the policy of applicable common law against assignment of certain contracts to third parties. Thus, Section 365(c) as originally enacted in 1978 provided that, absent consent:

> The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if-
>
> (1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to *the trustee* or an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties . . . .

11 U.S.C.A. § 365, Historical and Statutory Notes, "1984 Amendments." (West 1997)(emphasis added)

The trustee is of course a third party, someone other than the debtor, and assumption and performance of an executory contract by the trustee might arguably offend the law applicable to some contracts. Under Chapter 11 the debtor in possession exercises the rights and powers of the trustee, subject to applicable limitations. 11 U.S.C. § 1107. But when a debtor in possession assumes its own prepetition contract, applicable law could not be offended, so long as the debtor in possession is regarded as the same entity as

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[6] Respondent reserved its argument as to application of Massachusetts law, the bankruptcy court having found as a matter of fact that the corporate change of control transaction did not effect any "assignment" of the patent licenses. App. 51a.

the original contracting party. In 1984 Congress amended the statute to delete the above italicized reference to "the trustee" and to insert instead "*an entity other than the debtor or the debtor in possession.*" (emphasis added.) The legislative history explains that Congress intended to:

> make [ ] clear the prohibition against the trustee's powers to assume an executory contract does not apply where it is the debtor that is in possession and the performance to be given or received under a personal service contract will be the same as if no petition had been filed because of the personal nature of the contract.

H.R. Rep. No. 1195, 96th Cong. 2d Sess. § 27(b)(1980).

The 1984 amendment, whose purpose is explained by its legislative history, obviates a claim that the debtor in possession cannot assume and perform any contract that the trustee or a third party would be barred from taking over. *See Summit Inv. and Dev. Corp. v. LeRoux (In re LeRoux)*, 69 F.3d 608, 613 (1st Cir. 1995), (relying on legislative intent); *In re Cardinal Indus., Inc.*, 116 B.R. 964, 979 (Bankr. S.D. Ohio 1990) (same). The First Circuit decision in the instant case is consistent with all other circuit court authority in holding that a debtor in possession which is found to be materially the same entity as the prepetition debtor will not be barred from assuming and performing the contract. Here, there was no factual showing that Respondent's assumption of its own patent licenses, whether viewed separately or in conjunction with acquisition of stock ownership by bioMérieux, was a transaction that would deprive Petitioners of the benefit of their original bargain. Indeed, as the Court of Appeals held, the potential for change in corporate ownership had been the subject of negotiation and Petitioners foresaw or should have foreseen the possibility of

such a change as to Respondent, but understood and agreed that the licenses would nonetheless remain in effect. App. 12a-14a. There was no basis in fact or law for the Court of Appeals to reach a different result, and the case presents no compelling issue for review.

II. THERE IS NO CONFLICT BETWEEN THE FIRST CIRCUIT'S DECISION AND THE DECISIONS OF OTHER CIRCUITS APPLYING § 365(C).

A. Both The Third Circuit And The First Circuit Focus On Whether The Debtor In Possession Seeking Contract Assumption Is A Materially Distinct Entity From The Prepetition Debtor, And The Differences In The Decisions Are Attributable To The Different Facts In Each Case.

Petitioners seek to contrive a conflict between the instant case and the opinion of a divided panel of the Third Circuit in *In re West Electronics Inc.*, 852 F.2d 79, 83 (3d Cir. 1988) ("*West*"), but the result in *West* was a function of very different facts and applicable law.[7]

In *West*, the issue was whether the automatic stay under 11 U.S.C. § 362 should be lifted to permit the government to terminate a contract for the production of military equipment. In holding that the stay should be lifted, the *West* court pointed out that the Anti-Assignment Act, 41 U.S.C. § 15, prohibited assignment of the contract without the government's consent and that the government had not consented. *Id.* at 83. Here, in

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[7] Petitioners acknowledged below that *West* was not on point, prefacing citations to *West* with the caveat that: "Similarly, *although not directly on point*, cases involving contracts other than patent licenses also look to whether applicable nonbankruptcy law prohibits assignment to determine whether §365(c) operates as a limitation on the general authority of §§365(a) and (f) to assume and assign executory contracts." Brief Of Appellants Institut Pasteur And Pasteur Sanofi Diagnostics, pp. 30-31 n.37 (emphasis added), filed with the Court of Appeals.

contrast, it was found that the contract permitted the transaction. App. 13a. Moreover, the *West* court, in attempting to divine Congressional purpose in § 365(c), believed that Congress was intent on precluding assumption in that context, as "a solvent contractor and an insolvent debtor in possession going through bankruptcy are materially distinct entities." *West*, 852 F.2d at 83. Here, in contrast, the Court of Appeals (and the lower courts) concluded that Respondent, under new ownership, was *not* an entity materially distinct from the prebankruptcy debtor.[8] App. 10a-11a; 26a-33a; 51a, § 34(h). In contrast to the debtor in *West*, Respondent was solvent and was capable of performing under the contract.[9]

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[8] The two courts use the same terminology in discussing whether § 365(c) precludes assumption: in *West*, assumption was denied where the debtor in possession was a "materially distinct entity" from the prepetition debtor; in the instant case, assumption was permitted where the debtor in possession was *not* an "entity materially distinct" from the prepetition debtor.

[9] Petitioners include a string cite of lower court decisions evidencing what petitioners say is confusion in the lower courts. Petition 9 n.7. In fact, assumption was permitted in every post-*West* decision Petitioners cited in which the debtor in possession was materially the same entity as the prepetition debtor, *infra* note 14, whereas both cases in which assumption was denied were cases in which the debtors in possession were materially distinct entities from the prepetition debtors. Both such cases are not relevant authority for other reasons as well. *Breeden v. Catron (In re Catron)*, 158 B.R. 629, 638 (E.D. Va. 1993) (terminating partnership agreement based on reading of 11 U.S.C. § 365(e)(2), which is not applicable here, and because the postpetition debtor was not the "same legal entity" due to the effect of the bankruptcy filing in shifting the debtor's fiduciary obligations from his partners to his creditors), *aff'd*, 25 F.3d 1038 (4th Cir. 1994); *In re Carolina Parachute Corp.*, 108 B.R. 100, 101 (M.D. N.C. 1989) ("*Carolina Parachute I*") (allowing the government to terminate its contract with the debtor in possession, because the court concluded that the postpetition debtor was a materially different entity), *aff'd in part, vacated in part, and remanded*, 907 F.2d 1469 (4th Cir. 1990) ("*Carolina Parachute II*"). Petitioners cited to *Carolina Parachute I* (Petition 9 n.7), the district court decision, but failed to note that such decision was reviewed and vacated on appeal on the § 365(c) issue. On appeal, termination of the contract was denied, as the government had not timely objected to its assumption. *Carolina Parachute II*, 907 F.2d at 1473.

Such fact-specific decisions do not offer a sound basis for review on certiorari. *See United States v. Johnson*, 268 U.S. 220, 227 (1925) ("We do not grant a certiorari to review evidence and discuss specific facts.").

B. Even The Third Circuit Does Not Follow The So-Called "Hypothetical Test" That Petitioners Contend Conflicts With The First Circuit's Decision.

The *West* court wrote, in dicta, that: "11 U.S.C. 365(c)(1) creates a hypothetical test--*i.e.*, under the applicable law, could the government refuse performance from 'an entity *other* than the debtor or the debtor in possession.'" *West*, 852 F.2d at 83 (emphasis in original). Petitioners contend that under such dicta a debtor in possession may never assume a contract where applicable law would prevent assignment of that contract to a third party, but that portion of the *West* opinion was subject to a dissent by Judge Higginbotham (852 F.2d at 84), and such a rule has not been sustained in subsequent Third Circuit decisions, which make clear the Third Circuit does not subscribe to such a test. [10]

In *In re Headquarters Dodge, Inc.*, 13 F.3d 764, 682-83 (3d Cir. 1993), a § 365(c) case which is not directly in point because it involved assignment of the contract to a third party, the Third Circuit referred to statements in *West* and another case as "Third Circuit dicta" (*id.* at 682) and concluded that a fact intensive inquiry would be necessary, based on factors such as the original expectations of the parties, to determine whether assignment in bankruptcy should be denied. *Id.* at 683. Thus, on appropriate facts, the Third Circuit would permit assignment by a trustee or debtor in possession despite applicable law precluding assignment in other circumstances. If the Third Circuit would permit assignment in the face of applicable law making the contract non-assignable, it would necessarily permit assumption in that

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[10] Apart from producing absurd results, application of such a hypothetical test has been severely criticized as contrary to the legislative history of § 365(c) and a prior decision of this Court. *See infra* notes 14 and 18.

circumstance, because assumption is a statutory prerequisite to assignment. *See* 11 U.S.C. § 365(f)(2) ("the trustee may assign an executory contract . . . only if -- the trustee assumes such contract . . . .").

Again, in *In re University Medical Ctr.*, 973 F.2d 1065 (3d Cir. 1992), the Third Circuit recognized that the Anti-Assignment Act makes government contracts non-assignable, *id.* at 1076 n.15, but nonetheless found "persuasive" the First Circuit view that no blanket prohibition on assumption applies: "'*[W]e see no reason why section 365 should not apply with full force to permit the assumption or rejection of government contracts by debtors.*'" *Id.* at 1077 n.16 (3d Cir. 1992) (emphasis in original) (quoting *In re Corporacion de Servicios Medicos Hospitalarios de Fajardo*, 805 F.2d 440, 447 n.10 (1st Cir. 1986)). While in that case the government waived its rights under the Anti-Assignment Act, the general statement to which the Third Circuit subscribed is nonetheless irreconcilable with the hypothetical test attributed to *West* by Petitioners, which would render all government contracts non-assumable, because the Anti-Assignment Act prohibits their transfer to any other party, without consent. 41 U.S.C. § 15(a). If panels of the Third Circuit are inconsistent, it is for the Third Circuit, not this Court, "to reconcile its internal difficulties." *Wisniewski v. United States*, 353 U.S. 901 (1957).

C. In Any Event, The "Hypothetical Test" Would Not Be Relevant Here, Because The Cross-Licenses And Applicable Law Permit The Transaction At Issue.

While the Court of Appeals did not herein apply the "hypothetical test," the facts of this case would lead to the same result under that test, since the contract in question and applicable law permit the very transaction complained of by Petitioners. The Court of Appeals held that Petitioners "foresaw, or reasonably should have foreseen" that Respondent might undergo a change in ownership, "but nonetheless chose not to condition the continued viability of its cross-licenses accordingly." App. 13a-14a. As the court determined, "[t]hese cross-licenses explicitly authorize

[Respondent] to share its license rights with any 'affiliated company,' which on its face presumably encompasses a parent corporation such as bioMérieux's subsidiary." App. 13a. Such determinations, involving interpretation of a contract, provide no basis for grant of certiorari. *See The Monrosa v. Carbon Black Export, Inc.*, 359 U.S. 180, 182-185 (1959) (certiorari denied despite conflict of decision where case concerned contract interpretation).[11] Even if § 365(c)(1)(A) would prohibit assumption, § 365(c)(1)(B) permits assumption where the non-debtor party has consented. *See, e.g., Catron*, 158 B.R. at 636 ("the statute also requires that the nondebtor parties to the contract fail to consent to the assumption . . ."). Here, the terms of the Cross-Licenses clearly permit their retention despite the change in corporate ownership.[12] App. 12a-14a. *See Metropolitan Airports*

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[11] In an apparent invitation to this Court to resolve a factual dispute, Petitioners argue that the First Circuit's analysis of the contract is incorrect (Petition 16 n.16), and that the territory licensed to Respondent excluded the United States, but the Cross-Licenses state that the covered territory "*shall be automatically extended*" to include the United States (as well as other territories listed under Exhibit C to the Cross-Licenses), in the event that Petitioners recovered from Genetic Systems the right to practice in such territories, which Petitioners were to use "best effort[s] to recover." App. 61a, § 2.2; App. 74a, § 2.2. In a separate action between Petitioner IP and Respondent, the bankruptcy court found, over Petitioner IP's objections, that, for purposes of the contract, the rights had been so extended, thereby authorizing Respondent to use Petitioners' technology in those territories, including the United States. *See Institut Pasteur v. Cambridge Biotech Corp. (In re Cambridge Biotech Corp.)*, 186 B.R. 9, 16-17, 22 (Bankr. D. Mass. 1995), *appeals docketed and pending* Nos. 95-40188, 95-40189 (D. Mass. October 5, 1995). Petitioners maintain "federal common law" prevents assignment of licenses covering U.S. patents, but U.S. patent law will not be applicable if the territory covered by the Cross-Licenses does not include the United States.

[12] In their effort to avoid the terms of the Cross-License, Petitioners argue that the terms of the contract are irrelevant, although that contention is not supported by any citations. Petition 16. The phrase "whether or not such contract or lease prohibits or restricts assignment of rights or delegations of duties" in § 365(c) does not make irrelevant the terms of the contract authorizing assignment. The only contractual language to be ignored under § 365(c) is anti-assignment language, as § 365(c): "*prevents* parties from using contractual language to *prevent* the trustee from assigning contracts that (when the contract is

Comm'n v. Northwest Airlines (*In re Midway Airlines*), 6 F.3d 492, 496 (7th Cir. 1993) (where the non-debtor party agreed in the contract to a transaction that later takes place, it "cannot now object to the one proposed here"). Thus, even if this Court found that the First Circuit incorrectly applied § 365(c) such a ruling would not change the result. *See Sommerville v. United States*, 376 U.S. 909 (1964) (denying certiorari where resolution of a conflict would not change the result below).

D. The Decision Of The First Circuit Poses No Conflict With The Decisions Of Other Courts Of Appeals.

This case does not present the Court with an opportunity to resolve any "conflict" between the First Circuit and other circuits.[13] Petitioners cite to several decisions that arose in a patchwork of various factual circumstances, none of which resemble the facts presented here. No circuit court has denied assumption where (as here) the debtor in possession seeking assumption was found to be materially the same entity as the prepetition debtor. No circuit court has denied assumption where (as here) the contract was to be retained in the debtor's *bona fide* ongoing business following a change in corporate ownership. The First Circuit's decision below creates no "real and embarrassing conflict of opinion and authority between the circuit courts of appeal" justifying review on certiorari. *National Labor Relations Board v. Pittsburgh S.S. Co.*, 340 U.S. 498, 502 (1951) (quoting

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silent) contract law typically makes assignable." *Pioneer Ford*, 729 F.2d at 28 (emphasis added). *See also Metropolitan Airports Comm'n v. Northwest Airlines (In re Midway Airlines)*, 6 F.3d 492, 495-96 (7th Cir. 1993) (assumption was permitted, over the nondebtor party's objections, because the contract authorized it).

[13] Petitioners argue that the First Circuit's decision conflicts with *In re James Cable Partners, L.P.*, 27 F.3d 534 (11th Cir. 1994), but that case ruled that assumption was *permitted*, despite an applicable law that prohibited assignment.

Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, 393 (1923)).[14]

In their effort to contrive a conflict, Petitioners have also cited cases which are distinguishable because they involved assignment, not assumption. *See In re CFLC, Inc.*, 89 F.3d 673 (9th Cir. 1996); *Rieser v. Dayton Country Club Co. (In re Magness)*, 972

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[14] The reading Petitioners seek to adduce from *West* also has been rejected nearly uniformly by the lower courts in decisions since *West*. These courts view the test as "absurd" or as a "legal tautology." *See, e.g., Summit Inv. and Dev. Co. v. LeRoux (In re LeRoux)*, 69 F.3d 608, 613 (1st Cir. 1995) (rejecting the hypothetical test, because it leads to the nonsensical result of preventing a debtor from assuming its own contracts); *In the Matter of American Ship Bldg. Co., Inc.*, 164 B.R. 358, 362 (Bankr. M.D. Fla. 1994) (permitting debtor to assume a government contract, and rejecting the hypothetical test, because it prevents a debtor from assuming its own contract and is, at the least, a legal tautology). *See also In the Matter of GP Express Airlines, Inc.*, 200 B.R. 222, 231-32 (Bankr. D. Neb. 1996) (where there is an assumption, rather than an assignment, there is no need to pose the hypothetical question); *In re Nizny*, 175 B.R. 934, 936-38 (Bankr. S.D. Ohio 1994) (rejecting hypothetical test under analysis of §§ 365(c) and 365(e)); *In the Matter of Optimum Merchants Servs.*, 163 B.R. 546, 554 (Bankr. D. Neb. 1994) ("[M]ost bankruptcy courts have expressly rejected the Third Circuit's hypothetical test."), *vacated on appeal by consent order*, 199 B.R. 409 (D. Neb. 1995); *Texaco Inc. v. Louisiana Land and Exploration Co.*, 136 B.R. 658, 670 (Bankr. M.D. La. 1992) ("the trend appears to be away from the 'hypothetical test' of *West*"); *In re Fastrax, Inc.*, 129 B.R. 274, 277 (Bankr. M.D. Fla. 1991) (hypothetical test is not "appropriate under § 365(c)(1)"); *In re Hartec Enters., Inc.*, 117 B.R. 865, 871 (Bankr. W.D. Tex. 1990) ("The hypothetical test also violates a basic rule of statutory construction that a court should give effect to every word in a statute."), *vacated by compromise*, 130 B.R. 929 (Bankr. W.D. Tex. 1991); *In re Ontario Locomotive & Indust. Ry. Supplies, Inc.*, 126 B.R. 146, 147 (Bankr. W.D. N.Y. 1991) (remarking that *West* "has not been lacking for hostile critics"); *In re Cardinal Indus., Inc.*, 116 B.R. 964, 979 (Bankr. S.D. Ohio 1990) (examining the legislative history of the 1984 amendment and finding the hypothetical test in *West* to be "not appropriate under § 365(c)(1)").

F.2d 689 (6th Cir. 1992); [15] *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984);[16] *Pension Benefit Guar. Corp. v. Braniff Airways, Inc. (In re Braniff Airways, Inc.)*, 700 F.2d 935 (5th Cir. 1983). The decisions in those cases pose no conflict, because they did not deny a request for mere assumption and retention of a contract by an original party to the contract.

Petitioners also try to contrive a conflict by citing cases that interpreted the version of § 365(c) that existed prior to the 1984 amendment, discussed *supra* at pp. 4-6. *See Braniff Airways*, 700 F.2d 935; *In re Adana Mortgage Bankers, Inc.*, 12 B.R. 977 (Bankr. N.D. Ga. 1980). *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984), as an assignment case is consistent with the decision below, but also predates the 1984 amendment regarding assumption by the debtor in possession. The instant decision cannot be said to conflict with the pre-1984 amendment cases, because the purpose and effect of that amendment was to preclude

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[15] While the Sixth Circuit in *Magness* disagreed with *Pioneer Ford* as to the interplay of § 365(c) and (f) in cases involving assignment, the transaction in this case does not involve assignment and thus does not involve § 365(f). In any event, the *Magness* court is in accord with the First Circuit that the preliminary inquiry under § 365(c) is whether the non-debtor's rights will be adversely impacted. The *Magness* court wrote:

> Subsection (c) states that *if the attempted assignment by the trustee will impact upon the rights of a non-debtor third party*, then any applicable law protecting the right of such party to refuse to accept from or render performance to an assignee will prohibit assignment by the trustee.

Magness, 972 F.2d at 695 (emphasis added).

[16] Petitioners incorrectly state that the court in *Pioneer Ford* "wrote that § 365(c) prohibits assumption where applicable law renders the contract nonassignable." Petition 5. In fact, *Pioneer Ford* addressed only assignment, not assumption. *See also Midway Airlines*, 6 F.3d at 495 (distinguishing *Pioneer Ford* as applying only to contracts silent on the issue of assignability and as inapplicable where the contract authorized assignment).

any prohibition on the debtor's own assumption and performance of contracts that could not be assigned to a third party.[17]

E. The Facts Of This Case Present No Conflict Of Federal Policies.

Similarly, the facts of this case do not require a court to balance patent policies against bankruptcy policies. This case involved assumption and retention, not assignment to a third party. *Cf. CFLC*, 89 F.3d at 676-77 (involving assignment of patent licenses, not mere assumption). There is no policy prohibiting retention of patent licenses by original parties. Indeed, contract policies support upholding a patent licensor's agreement, such as that here, which authorize a licensee to retain its license notwithstanding a change in corporate ownership. *See* App. 13a. Cognizant of the patent policies against *assignment* to which Petitioners refer, the Court of Appeals noted that "the product-innovation theme promoted under patent law may well be accommodated by allowing patent holders to control sublicensing

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[17] Petitioners refer in a footnote to two unpublished decisions of the Fourth Circuit, neither of which conflicts with the First Circuit's decision here. In *Breeden v. Catron (in re Catron)*, 25 F.3d 1038, 1994 W.L. 258400, * 1, 1994 U.S. App. LEXIS 14585, * 2 n.1 (4th Cir. June 14, 1994) (unpublished opinion) ("*Catron II*"), without extended analysis the Fourth Circuit affirmed the district court's decision, which is distinguishable on its facts. The district court found the postpetition debtor to be a different entity than the prepetition debtor, as the debtor's fiduciary obligations in that case shifted from his partners to his creditors when he filed for bankruptcy. *Breeden v. Catron v. (In re Catron)*, 158 B.R. 629, 638 (E.D. Va. 1993) ("*Catron I*"), *aff'd*, 25 F.3d 1038 (4th Cir. Aug. 23, 1994). In addition, *Catron* actually involved application of § 365(e)(2) (which invalidates certain clauses that purport to terminate, *ipso facto*, a contract based upon a bankruptcy filing), while this case does not involve an *ipso facto* clause and thus does not involve § 365(e)(2).

The second unpublished Fourth Circuit opinion that Petitioners cite is consistent with the First Circuit's decision below. *Gould v. Antonelli (In re Antonelli)*, 4 F.3d 984, 1993 U.S. App. LEXIS 37907 (4th Cir. 1993) (unpublished opinion). In its opinion, the Fourth Circuit, after extensive analysis, affirmed the district court's "adoption" of a "materiality of identity" test similar to the one adopted by the First Circuit in this case.

through negotiated contract restrictions." App. 12a n.11 (emphasis in original). The Court of Appeals decision merely enforces Petitioners' own contractual intent, that Respondent was to retain benefits of the Cross-Licenses despite potential shifts in Respondent's corporate ownership.

III. THE COURT OF APPEALS' DECISION DOES NOT CONFLICT WITH PRIOR DECISIONS OF THIS COURT.

The act of commencing a bankruptcy case does not change the legal identity of an entity or its capacity to perform its contracts. *National Labor Relations Board v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984).[18] This Court in *Bildisco* said that a debtor in possession is not, on its face, a distinct entity:

> Obviously if the [debtor in possession] were a wholly "new entity," it would be unnecessary for the Bankruptcy Code to allow it to reject executory contracts, since it would not be bound by such contracts in the first place. For our purposes, it is sensible to view the debtor-in-possession as the same "entity" which existed before the filing of the bankruptcy petition, but empowered by virtue of the Bankruptcy Code to deal with its contracts and

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[18] In *LeRoux*, the First Circuit wrote:

> Mirroring the 1984 legislative history discussed above, pertinent Supreme Court decisions diminish the legal "fiction" that the prepetition debtor and the postpetition debtor are to be treated as though they were separate legal entities, *see National Labor Relations Bd. v. Bildisco & Bildisco*, 465 U.S. 513, 528, 104 S. Ct. 1188, 1197, 97 L.Ed.2d 482 (1984), thereby undermining [the nondebtor party's] thesis that the postpetition "change" in contract performance is sufficiently substantial--in and of itself--to deprive parties like [the nondebtor party] of the full benefit of their bargain. [citations omitted].

LeRoux, 69 F.3d at 613-14.

> property in a manner it could not have employed absent the bankruptcy filing.
>
> The fundamental purpose of reorganization is to prevent a debtor from going into liquidation. . . .

Bildisco, 465 U.S. at 528. Whatever the appropriate allocation of burdens of proof or persuasion, the First Circuit did not need to decide that issue, as the record established beyond dispute that:

> [Respondent] all along has conducted, and proposes to continue, its retroviral diagnostic enterprise as the same corporate entity which functioned prepetition, while utilizing [Petitioners'] HIV2 procedures in that same prepetition endeavor.

App. 11a.

The Court of Appeals' decision does not alter the debtor in possession's obligation to prove that its assumption or rejection will "benefit" the estate, the only burden the decisions cited by Petitioners impose on Respondent. *Bildisco*, 465 U.S. at 526; *In re Anglo Energy Ltd.*, 41 B.R. 337, 340 (Bankr. S.D. N.Y. 1984). The bankruptcy court found that Respondent discharged that burden, and Petitioners have never argued otherwise. *See* App. 42a; 46a, §§ 9, 25, 27. Accordingly, the First Circuit's decision presents no conflict with *Bildisco*.

CONCLUSION

For all of the foregoing reasons, Respondent respectfully requests that the petition for certiorari be denied.

Respectfully Submitted,

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